

Yen Surges As Ueda Hints Ending Negative Rates

Previous Week Summary

Rates continue to be a headwind as inflation and growth beat targets; Apple falls on China iPhone Ban

Dollar bulls continue to enjoy a strong run as traders continued to bet that the Federal Reserve will continue to raise interest rates amidst a strong US economy and above target inflation. The MSCI ACWI dropped by 0.84%, driven by losses across all major markets. The S&P 500 (-0.85%) and NASDAQ (-1.84%) sold off after China released a ban on iPhones across government institutions. These unnerved investors and affected tech investors with Apple diving sharply (-6.07%). Sentiment soured and affected other parts of big tech as NVIDIA dropped by (-6.12%). Faced with the same policy headwinds, other DM markets posted negative returns as well. STOXX 600 Europe (-0.71%), TOPIX (-0.88%) were also in the red. Emerging Markets also continued to struggle with the China CSI 300 (-2.64%) reeling from debt woes as one of its biggest developers Country garden restructures its debt, narrowly missing default.

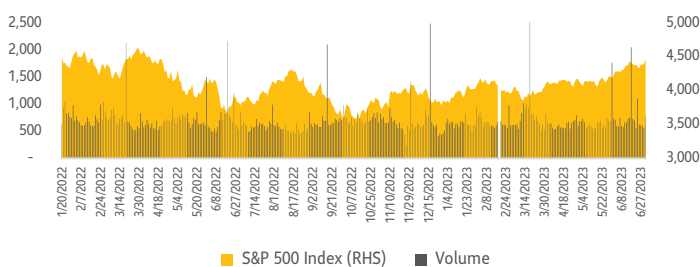
Yield curves shifted higher on the back of strong US economy and inflation concerns

US Treasury yield curve shifted higher as strong economic data, a heavy supply calendar, and higher oil prices reinforced the scenario that rates will stay high for some time. Market participants have priced out rate cuts to 2nd half of 2023. In the Philippines, August inflation came out worse than expected at 5.3% y/y versus consensus expectation of 4.7% y/y. The uptick in inflation was primarily driven by higher prices of rice and other food items. The uncertain inflation outlook and the sell-off in US Treasuries led local government bond yields higher across the curve.

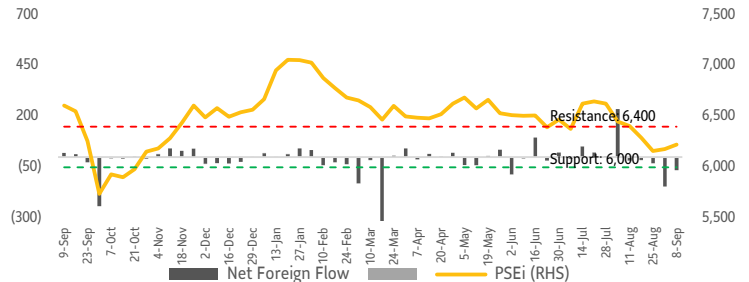
PSEi edges higher amid late bargain-hunting after trading lower all week

The traded sideways with a slight upward bias last week on late bargain-hunting following soft domestic macro data releases (unemployment, inflation) coupled with strong US macro data leading to renewed fears of "higher for longer" Fed rates. The PSEi tracked the ensuing regional mid-week sell-down, but select bottom-fishing on certain large cap names led it to close above 6,200 in average daily turnover of Php4.8Bn for the week. The PSEi gained 41.88 points (+0.68%) to close last week at 6,222.94.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

The yen jumped on Monday as comments from Bank of Japan (BOJ) Governor Kazuo Ueda stoked hopes that Japan could soon herald a new era away from negative rates, while the dollar slid ahead of this week's key U.S. inflation reading.

The Japanese currency strengthened more than 1% to touch a one-week high of 145.99 per dollar, boosted by weekend comments from Ueda that the central bank could end its negative interest rate policy when achievement of its 2% inflation target is in sight. Ueda told the Yomiuri newspaper in an interview that the BOJ could have enough data by year-end to determine whether it can end negative rates.

<https://www.reuters.com/markets/currencies/yen-jumps-uedas-remarks-dollar-tentative-ahead-us-inflation-print-2023-09-11/>

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Bright Ideas

Fixed Income

USD FIXED INCOME

US inflation data for the month of August is due this week. A headline print within expectations will further support market's view of a Fed skip in this September's FOMC. SLIMTC will look to add duration as US Treasuries currently trade close to their support levels.

PHP FIXED INCOME

In the absence of local catalysts, SLIMTC expects local government bond yields to track movements in US Treasuries. SLIMTC prefers to hold bonds in the front-end to belly as risks to inflation remain heavily tilted to the upside.

Local Equities

FTSE rebalancing will impact local share prices as we expect around USD 25m foreign selling by 15 September. PSEi will likely get direction from the US market, with all eyes on August inflation data which will be released mid-week. PSEi support remains at 6,000 pts.

Global Funds

SLIMTC continues to gradually increase equity exposure as investors position for a continued recovery in markets. Investments have been calibrated to those names/funds that are positioned to benefit the most from the resilient U.S. economy as the probability of a recession continues to diminish. This includes companies with exposure to emerging structural themes (Tech/AI) and earnings resilience. The team remains constructive on Japan too as the macroeconomic recovery remains intact and provides a boost to earnings and multiples. However, exposure to Emerging Markets will be kept at neutral, with a preference towards Korea, Taiwan, and India as these countries remain beneficiaries of the prevailing themes that are driving the market.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
13-Sep-23	US Core CPI (Aug)	4.70%	4.30%
13-Sep-23	US Headline CPI (Aug)	3.20%	3.60%
15-Sep-23	PH Remittance (July)	\$2,812 m	\$2,990 m

Our House View

Economic Forecast (as of 11 Sept 2023)

Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	5.80%	3.00%	7.00%
PH GDP	4.80%	3.00%	6.50%
USDPHP	54	53	55
BSP Policy Moves	Pause to cut	-1	0
BSP Policy Rate	-25 bps	-25	
Budget Deficit	-6.72%	-	-

US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 82/bbl	USD 70/bbl	USD 93/bbl
Fed Policy Moves	0-2	0	2
Fed Policy Rate	0-50bps	0 bps	50 bps
US 10Y	3.98%	3.85%	4.10%
US Recession Probability 2023	High	-	-

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